LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

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FISCAL IMPACT STATEMENT

LS 6936 **DATE PREPARED:** Feb 11, 2001
BILL NUMBER: HB 1765 **BILL AMENDED:**

SUBJECT: Limit Property Tax for Elderly.

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FUNDS AFFECTED: **X** **GENERAL** **IMPACT:** State & Local
X **DEDICATED**
FEDERAL

Summary of Legislation: This bill provides a property tax credit to a homestead owner eligible to receive full Social Security benefits. The amount of the credit for a homestead owner whose adjusted gross income is $75,000 or less is determined so that the owner's net property tax liability on the homestead in future years will not be greater than the individual's net property tax liability in the first year the individual qualified for the credit, as adjusted annually for inflation. The credit is one-half that amount for a homestead owner whose adjusted gross income is between $75,000 and $100,000. The bill provides that the property tax credit is payable from the Property Tax Replacement Fund and it annually appropriates from the fund an amount sufficient to pay for the property tax credits.

Effective Date: July 1, 2001.

Explanation of State Expenditures: Beginning with taxes payable in CY 2002, this proposal would permit homeowners who are least the age at which they are entitled to full Social Security retirement benefits to file a statement with the county auditor claiming a credit against their net property tax bills. The credit would be equal to 100% of the qualifying taxpayer's increase in net residential property taxes since the taxpayer's base year if the taxpayer's adjusted gross income (AGI) is less than $75,000. The credit would be equal to 50% if the AGI is between $75,000 and $100,000. A taxpayer whose AGI exceeds $100,000 would not qualify for the credit.

Estimation Issues: In estimating the impact of this bill, it was assumed that the currently proposed real property assessment rule will be used to revalue property for the next reassessment. It was also assumed that the next reassessment will apply to property assessed in 2002 with taxes first paid in 2003 as mandated in the latest order from the Indiana Tax Court.

The total cost estimate in this analysis may be low. Currently available data does not allow more exact measurements of the reassessment tax increases on the specific homes owned by the elderly. These homes may be older and could experience a larger increase than the average under the proposed real property assessment manual. Also, data on tax increases is only available down to the district level. If a district has homes with tax decreases, then the decreases cause the total district residential tax increase to be underestimated.

Fiscal Analysis: In CY 2003, the increase in net property taxes to be paid by qualifying homeowners who experience increases is estimated to be at least $52.9 M over their CY 2002 net liabilities, as adjusted for inflation. Assuming a 2% growth in net tax rates after CY 2003 and a 2% inflation rate, the dollar amount of the credit under the bill would remain nearly constant and is estimated to be at least $52.9 M in each year from CY 2002 to CY 2005. On a fiscal year basis, the cost of the credit to the state is estimated to be at least $26.5 M in FY 2003 (½ year) and $52.9 M in each of FY 2004 and FY 2005.

This credit would be paid from the Property Tax Replacement Fund (PTRF). This fund is annually supplemented by the General Fund to meet obligations. An increase of expenditures from the PTRF would ultimately impact the General Fund.

Explanation of State Revenues: The credit would also reduce the cost of the state income tax deduction for homestead property tax payments up to $2,500. This deduction was enacted by P.L. 273 -1999 and is effective for tax years beginning January 1, 1999. Since the property tax bills for those taxpayers that qualify for this new property tax credit would be reduced under this bill, the amount of the income tax deduction that they would qualify for would also be reduced. The reduction in the amount claimed would result in a gain in state revenue estimated to be at least $1.8 M in FY 2004 and FY 2005. Revenue from the Adjusted Gross Income Tax is deposited in the General Fund.

The net cost of the property tax credit to the state (credit cost less income tax gain) is estimated to be at least $26.5 M in FY 2003 and $51.1 M in each of FY 2004 and FY 2005. This impact assumes that all eligible recipients of the proposed credit will file for the credit as soon as it would be effective.

A person who knowingly or intentionally files a false claim under this provision would be obligated to pay back the amount of falsely obtained credits plus interest for deposit into the PTRF.

Explanation of Local Expenditures: Local governments would be responsible for printing and processing the claim forms for the credit. This would create an indeterminable cost increase for the County Auditor's offices.

Explanation of Local Revenues: There would be no impact on local tax revenues. Local units of government would continue to receive the same total tax revenues, regardless of the source.

State Agencies Affected: State Board of Tax Commissioners; Indiana Department of State Revenue.

Local Agencies Affected: County Auditors.

Information Sources: Property Tax Analysis, State Board of Tax Commissioners; Local Government Database; Consumer Expenditure Survey, U.S. Bureau of Labor and Statistics.